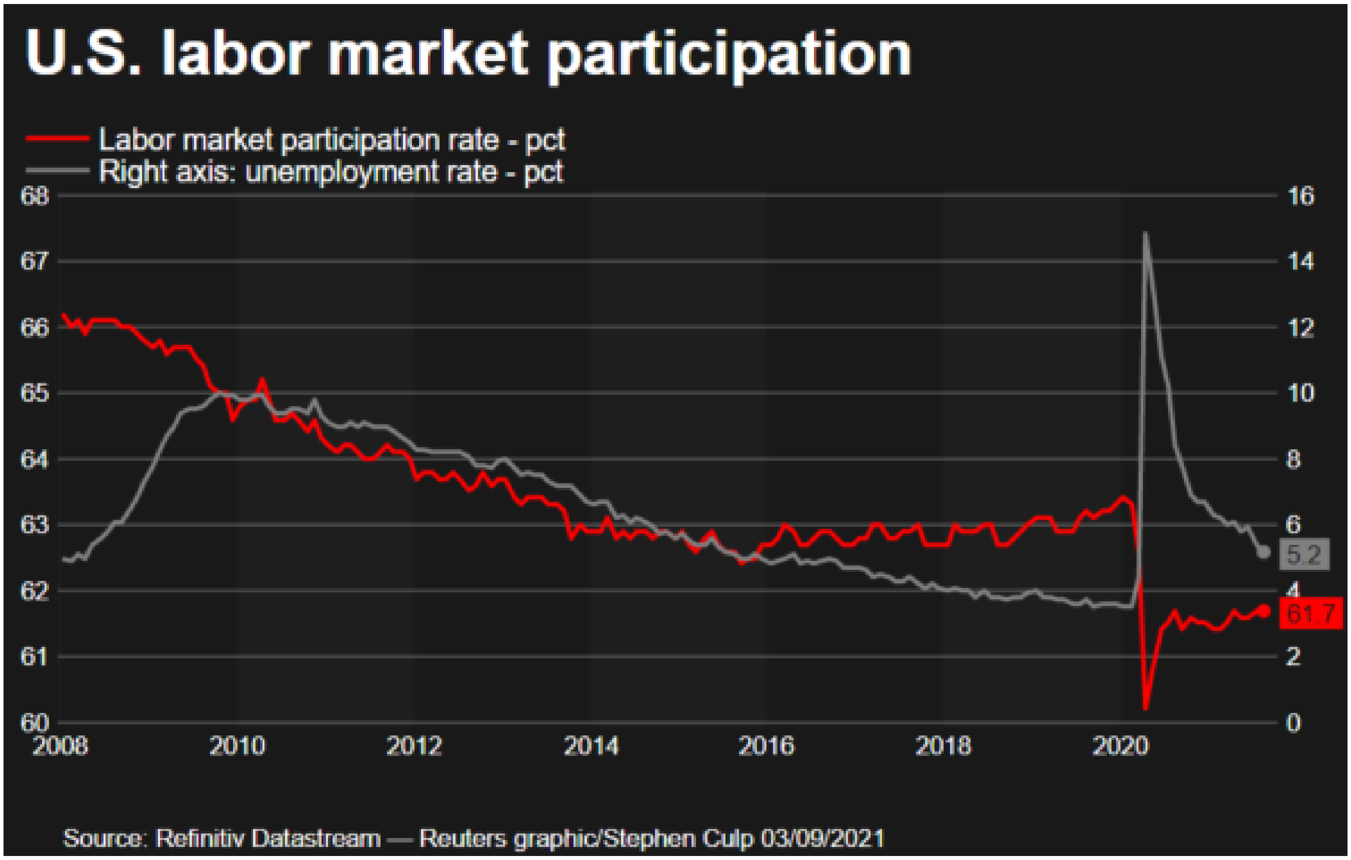
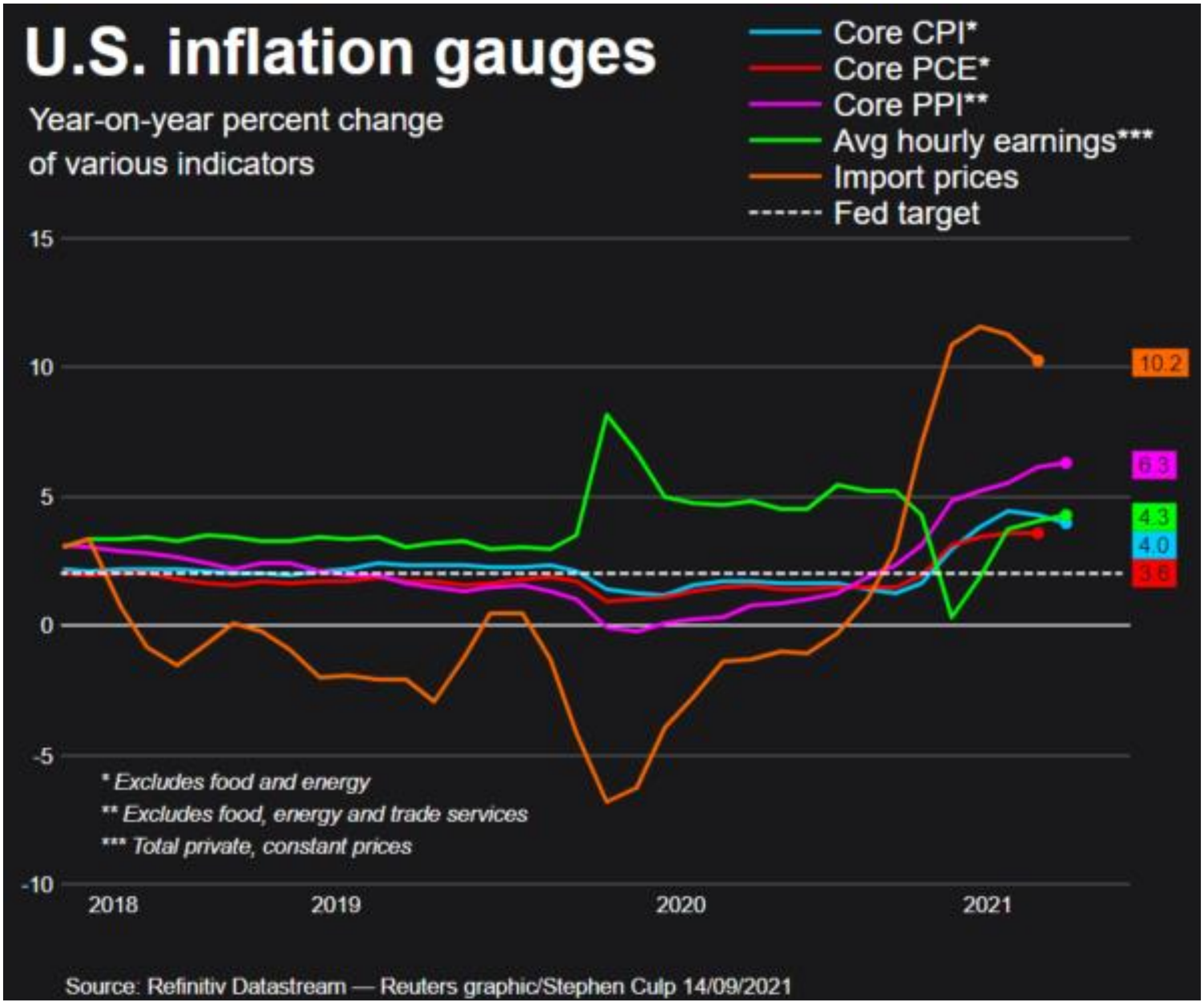
This week…

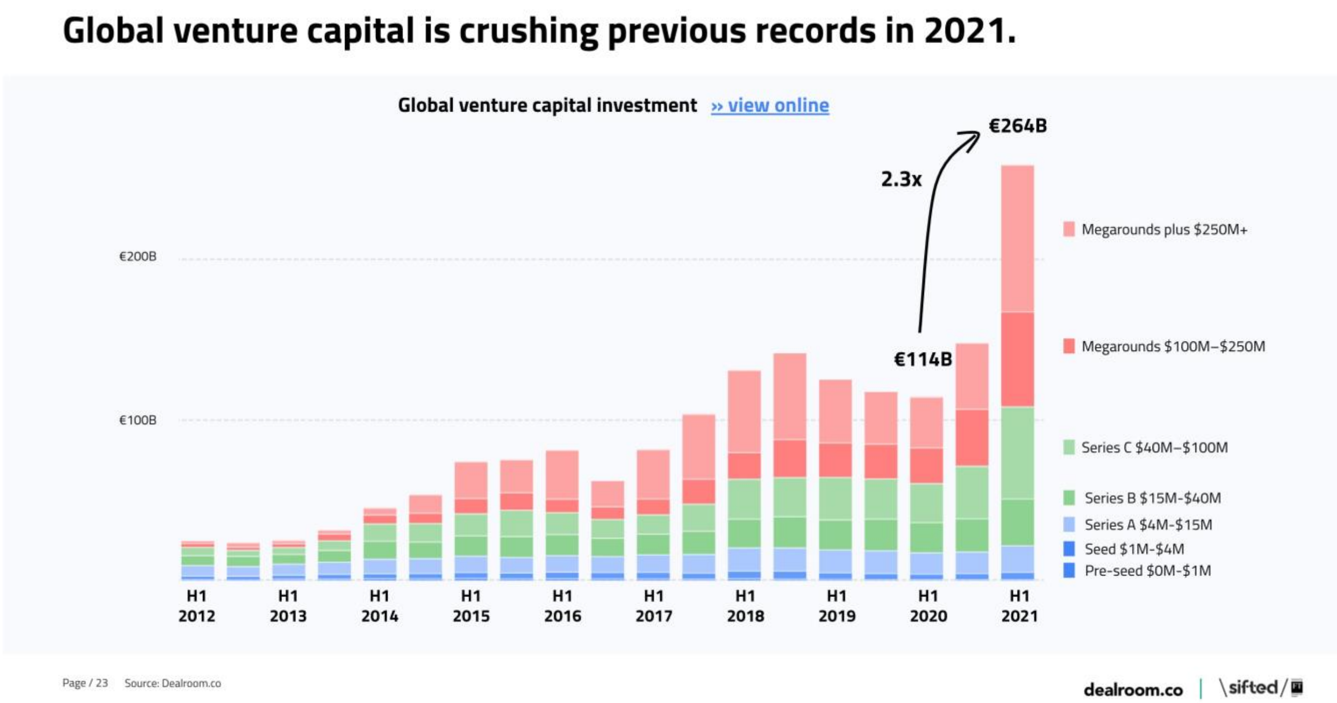
Aside from the September jobs report coming on Friday, it's a quiet week for economic releases. That said, the evolving narrative at the Fed keys off the recovery in employment, as the dual mandate they operate under has the target being maximum employment with stability in prices. Given where we are, even with the Delta variant noise in the numbers, I would say mission accomplished on maximum employment.



In terms of the latter, Chairman Powell has lost control of the narrative. Prices are no longer stable, and you can count me in the camp that says this isn't transitory. And if that means I'm hanging out with BlackRock's Larry Fink, I'm totally okay with it. Because not only are the basics that hit the everyman rising at an uncomfortable rate…

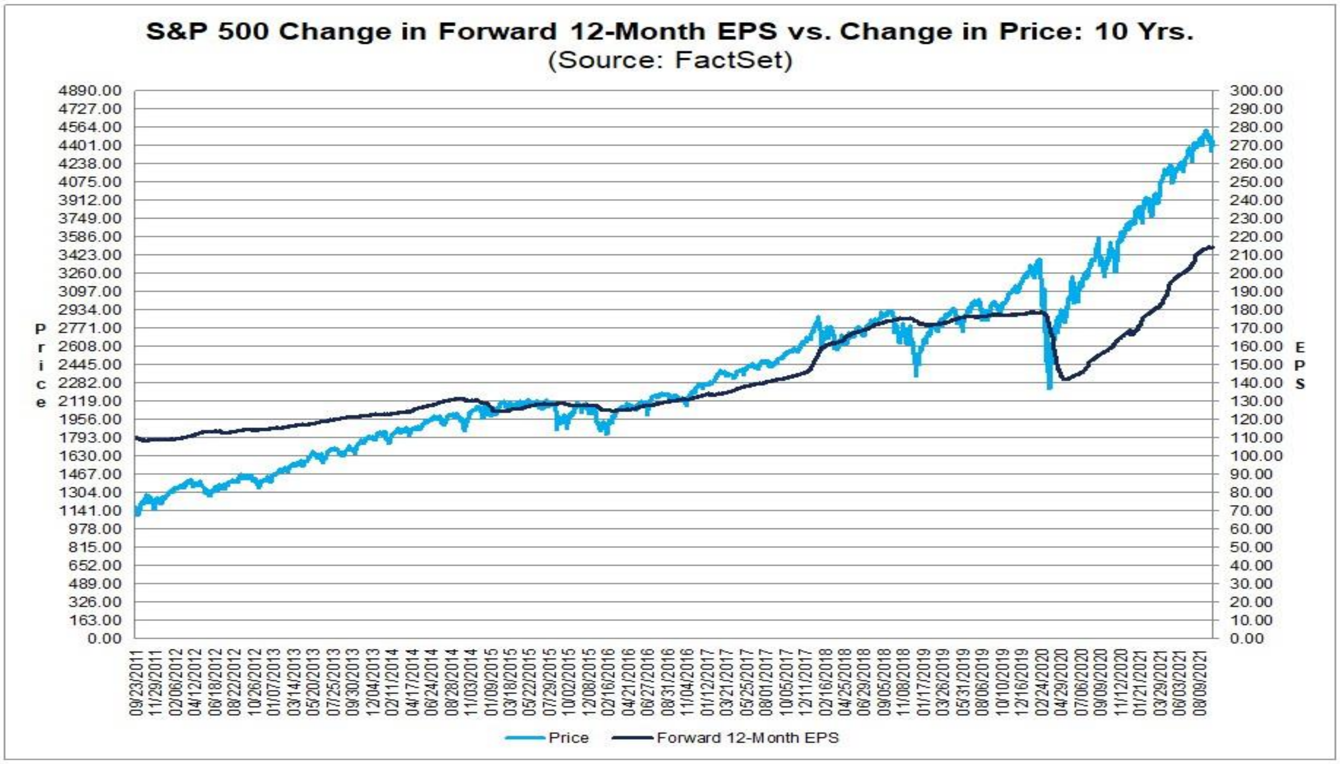


asset prices are truly through the roof. Look no further than the twelve month returns for endowments at major colleges that the *Wall Street Journal* reported last week. We are talking 50% gains for Brown, Minnesota, Illinois, and Duke. The University of California posted a more 'pedestrian' 34% return. While equities have done their part to carry the load, it's private equity and venture capital that have really juiced things. And the late round money is flowing in like never before.

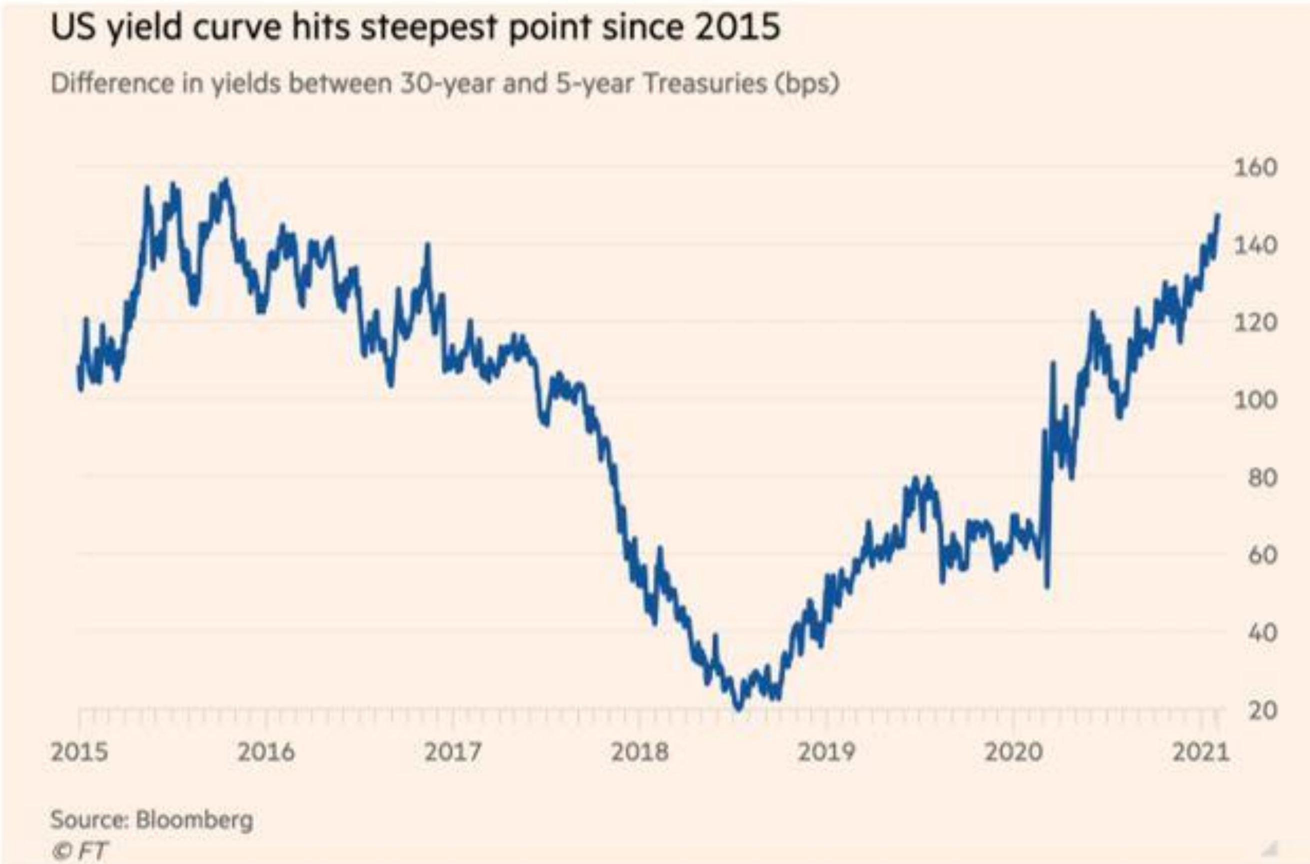


And please, I beg of you, don't get me started on the real estate bubble that free money has created. I've seen it firsthand in towns and cities across the country this year. Nashville has gone berserk. Austin has jumped the shark. The nicer parts of Montana are done and gone. And the 2,000 square foot ranch house I grew up in Sunnyvale is selling at a square foot rate that makes the Upper East look cheap. This is beyond a bonanza for everyone who sits on the sell side.

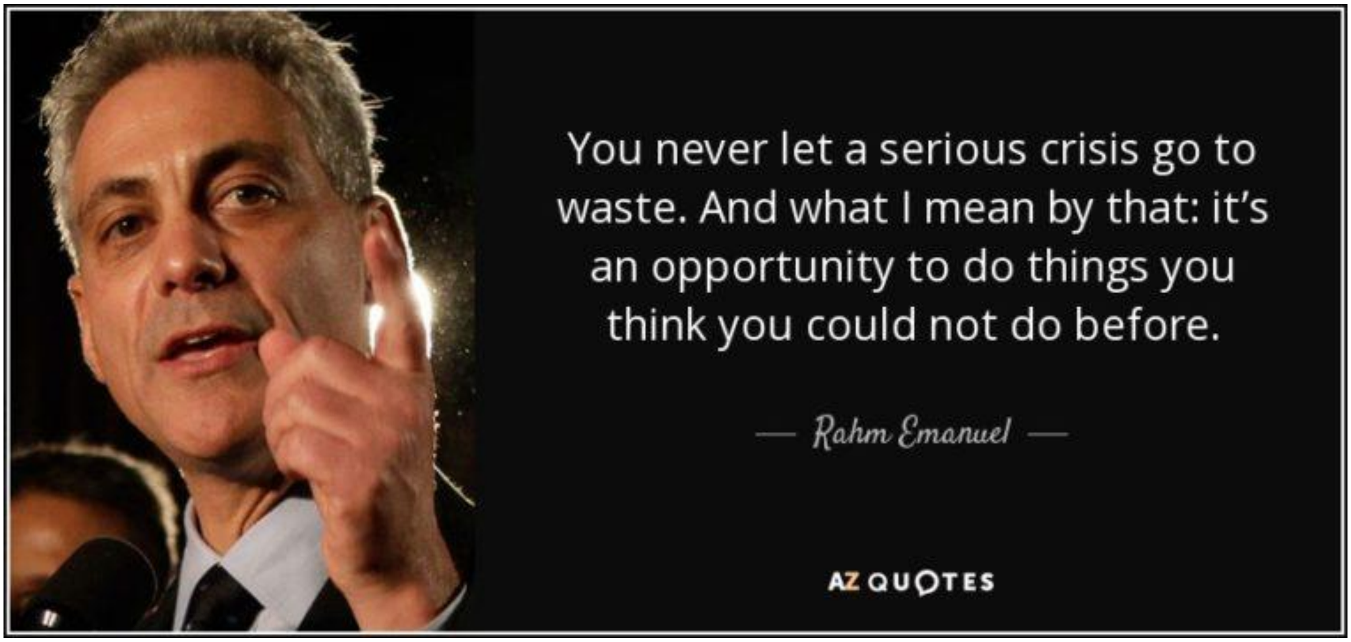
One reason the asset bubble has been allowed to grow is that the fundamentals underneath, from the bottom up and the top down, are doing their part to support the narrative that we have reached some sort of serendipitous state of economic nirvana. Better be because the S&P 500 is trading at a twenty multiple right now where the ten-year average is sixteen. Buyers beware, price eventually will matter.



A funny thing happened to equites in the third quarter, they found a plateau after a blistering run off the bottom in March of last year. A large part of this can be attributed to the rise in interest rates and recovery in the yield curve. Nothing about the 150 basis point difference between the 30-year and 5-year treasury says we have trouble ahead. And without trouble, the Fed can no longer keep the gas pedal pinned to the floor.



With that, we step off our 'buyer beware' soap box. But not before we bring back one of our favorite quotes of all time, and one that plays well given what we have seen out of monetary policy. Don't lose sight of the fact that things have been done that you could not do before.



Wall Street suffered a loss last week when Citigroup's well known equity strategist Tobias Levkovich passed away on Friday. He had been struck by a car a month earlier near his home on Long Island. His last market missive posted the morning of the accident, Tobias cautioned the parallels of the market today with that of 1999. His price target for the S&P 500 this year was 4,000 which is roughly 10% below where we trade today. His final note included this comment.

"Caution that proves to be wrong can cost one a career. Nevertheless, we feel compelled to stand by our analytical process."

While the analyst community seems vast, it really is a small club. One that seemingly gets smaller by the year. And while it is somewhat of a racket, it's our racket and we love it. Thank you, Tobias for all you contributed to it over the past twenty years. Your candor and willingness to step out on the edge will be missed.

We end this week's commentary with a little something for the Santa Barbara locals to look forward to. On Wednesday night, Pete Muller and his band, the Kindred Spirits, will be playing SoHo downtown. This show caps off a multi-city tour they have been on for the past few months. For those not in the know, Pete has been at the apex of his quant trading career for longer than most people even had one. Process Driven Trading, or PDT for short, has been minting money in such a massive way that Morgan Stanley's CEO James Gorman wished he had it back after being forced to spin it out due to Dodd-Frank. While it's nearly impossible to get a look at what PDT's trading book looks like, here is the 50,000 foot view of how its built.

What do we do? Our work consists of developing quantitative models to identify market inefficiencies and predict market movements. Once a model has been rigorously researched and tested, we deploy it to run live on our automated trading systems. These systems can trade on electronic markets all over the world, day and night, without much human intervention. Doing this correctly is as complicated as it sounds, and to get it right requires close coordination between PDTers from across the company. Although we are very proud of our success in the markets, PDT is at its heart driven by scientific principles and a compassionate culture. We are not a typical finance trading company.

What you can get out of Pete are some great lyrics. As someone who shares his intellectual curiosity, it's been interesting to dive into the words he writes. The question in my mind and others goes to who he is writing about. Is it him? Is it us? Is there a collage in there that is everybody? Regardless, it's filled with deep human emotion. Which is a perfect Ying to the emotionless Yang imbedded in his quant trading.

Pete does a lot of quoting, and great writing as well. One that he included recently in his monthly Deep Thoughts was from the book *"The New Rules of Marriage".* We end with his paraphrased version.

"If someone you care about is in distress, the only thing that matters is getting them out of distress, and back to their real self. This means that it doesn't matter who's right."

Be good to yourself this week and be good to others. You're the only one you got of yourself. The struggle is real out there and sometimes it's about getting through it all because there are some things you simply may never get over. On a lighter note, we remind our readers that if you don't like the news, go out and make some of your own. Giddy up, now!